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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-10319

VARI-CARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	16-0960645
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

800 Medical Arts Bldg.
277 Alexander St., Rochester, New York 14607
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (716)325-6940

NONE
Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes _____ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding as of August 7, 1992
Common Stock, Par Value $.01 Per Share	5,284,158

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PART I – FINANCIAL INFORMATION

Summarized Financial Information

All adjustments which in the opinion of management are necessary for a fair presentation of financial information contained herein have been made. All such adjustments are of normal recurring nature.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (Unaudited)

	For the 3 Months Ended		For the 9 Months Ended	
	6/30/92	6/30/91	6/30/92	6/30/91
Operating Revenues (net)	$ 16,261,623	$ 13,085,739	$ 46,537,356	$ 38,429,490
Operating cost and expenses:				
Operating–exclusive of depreciation, amortization and rent	10,291,648	8,684,438	30,115,542	25,139,619
Depreciation and Amortization	514,805	514,678	1,539,471	1,385,418
Rent	132,810	140,976	421,887	436,451
General and Administrative	3,176,693	2,916,588	9,471,830	8,490,036
Interest	593,596	636,357	1,870,116	1,810,118
Total costs and expenses	14,709,552	12,893,035	43,418,846	37,261,642
Income before income taxes	1,552,071	192,704	3,118,510	1,167,848
Provision for income taxes				
Currently Payable	278,500	40,100	860,000	352,000
Deferred	323,700	30,100	355,000	90,300
	602,200	70,200	1,215,000	442,300
Net Income	$ 949,871	$ 122,504	1,903,510	725,548
Retained earnings at beginning of year			7,881,699	7,135,314
Less – Dividends paid at $.04 per share each year			(211,366)	(211,246)
Retained earnings at end of period			$ 9,573,843	$ 7,649,616
Net Income per common and common equivalent share	$ 0.18	$ 0.02	$ 0.36	$ 0.14
Dividends per share	$ 0.04	$ 0.04	$ 0.04	$ 0.04

CONSOLIDATED BALANCE SHEET
(unaudited)

Assets

	6/30/92	9/30/91
Current Assets:		
Cash, including interest-bearing accounts of $1,194,000 and $219,000 respectively	$ 3,040,749	$ 1,746,454
Accounts receivable, less allowance for doubtful accounts of $522,000 and $222,000, respectively	4,552,203	4,716,639
Prepaid expenses	533,868	205,569
Total Current Assets	8,126,820	6,668,662
Fixed assets, at cost	52,552,403	52,079,702
Less- Accumulated depreciation and amortization	(16,580,083)	(15,369,351)
	35,972,320	36,710,351
Other assets:		
Leasehold and other acquisition costs, less amortization of $1,258,036 and $1,172,305 respectively	1,250,502	1,320,254
Other noncurrent assets	1,984,749	1,004,774
	3,235,251	2,325,028
	$ 47,334,391	$ 45,704,041

Liabilities and Shareholders' Equity

Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 1,616,014	$ 1,616,014
Accounts payable	2,112,417	2,476,629
Federal and state income taxes payable	227,750	201,151
Advance payments from residents	352,029	272,049
Accrued expenses and other liabilities-		
Payrolls	936,888	869,738
Payroll and other taxes	480,750	382,125
Vacation pay and other payroll benefits	306,626	403,695
Other	1,477,266	425,554
Total Current Liabilities	7,509,740	6,646,955
Long-term debt	22,210,752	22,875,657
Capital lease obligations	6,168,452	6,783,126
Deferred income taxes	978,400	623,400
Shareholders' equity:		
Common stock, par value $.01 per share- Authorized- 10,000,000 shares Issued- 5,437,110 shares in each period	1,061,754	1,061,754
Retained earnings	9,573,843	7,881,699
	10,635,597	8,943,453
Less-Treasury stock, at cost- 152,953 shares	(168,550)	(168,550)
	10,467,047	8,774,903
	$ 47,334,391	$ 45,704,041

CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

	9 Months Ended 6-30-92	9 Months Ended 6-30-91
OPERATING ACTIVITIES:		
Net income	$ 1,903,510	$ 725,548
Depreciation and amortization	1,539,471	1,385,418
Provision for losses on accounts receivable	300,000	169,000
Provision for deferred income taxes	355,000	90,300
Gain on the sale of fixed assets	(792,522)	
Changes in operating assets and liabilities		
Accounts receivable	(135,564)	(323,051)
Prepaid expenses	(328,299)	159,704
Accounts payable	(364,212)	653,252
Advance payments from residents	79,980	(10,536)
Accrued expenses and other liabilities	1,120,418	133,918
Federal and state income taxes payable	26,599	(73,154)
Net cash provided by operating activities	3,704,381	2,910,399
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,186,769)	(5,152,883)
Purchase of leasehold acquisitions and other costs	(29,152)	(159,425)
Net cash used in investing activities	(1,215,921)	(5,312,308)
FINANCING ACTIVITIES:		
Proceeds from current borrowing	298,780	2,918,093
Principal payments-long term debt and capital leases	(1,279,579)	(589,775)
Proceeds from exercised stock warrants		9,472
Dividends paid	(211,366)	(211,246)
Net cash <used in> provided by financing activities	(1,194,165)	2,126,544
Increase in cash	1,294,295	(275,365)
Cash - beginning of period	1,746,454	2,122,876
Cash - end of period	$ 3,040,749	$ 1,847,511

Supplemental Schedule of Non-Cash Investing and Financing Activities

In connection with the sale of the Phenix City Nursing Home, the company will purchase in conjunction with a like-kind exchange the Fairview Nursing Home. Accordingly, proceeds of $994,000 were held in escrow at June 30, 1992.

Nine Months ended June 30, 1991

Capital lease obligations of $930,000 were incurred in conjunction with the opening of the Renaissance and the Boulevard Manor addition

Supplemental Disclosure of Cash Flow Information During the Nine Months Ended		
Interest paid	$ 1,670,116	$ 1,810,118
Income taxes paid, net	257,865	459,581

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

THREE MONTHS ENDED JUNE 30, 1992 COMPARED TO THREE MONTHS ENDED JUNE 30, 1991
AND
NINE MONTHS ENDED JUNE 30, 1992 COMPARED TO NINE MONTHS ENDED JUNE 30, 1991

The following table lists items in the Company's unaudited Consolidated Statement of Income and Retained Earnings and sets forth the dollar and percentage increase (decrease) in those items based upon a comparison of the periods indicated.

	Three Months Ended 6/30/92 Compared to Three Months Ended 6/30/91		Nine Months Ended 6/30/92 Compared to Nine Months Ended 6/30/91	
	Increase (decrease)	% Change in Compared Periods	Increase (decrease)	% Change in Compared Periods
I. TOTAL REVENUES				
1. Operating Revenues (net)	$3,175,884	24.3%	$8,107,866	21.1%
II. OPERATING COSTS AND EXPENSES				
2. Operating-exclusive of depreciation, amortization and rent	$1,607,212	18.5%	$4,975,923	19.8%
a. Operating Wages	$ 602,815	10.2%	$2,338,989	13.7%
b. Food, Operating Supplies and Expense	$ 459,238	37.1%	$1,196,901	32.5%
c. Repairs, Maintenance and Utilities	$ 29,726	4.8%	$ 192,545	11.5%
d. Ancillary Services	$ 515,433	56.7%	$1,247,488	46.1%
	$1,607,212		$4,975,923	
3. Depreciation and Amortization	$ 127	0.02%	$ 154,053	11.1%
4. Rent	$ (8,166)	(5.8%)	$ (14,564)	(3.3%)
5. General and Administrative	$ 260,105	8.9%	$ 981,794	11.6%
a. Administrative Salaries	$ 73,456	8.5%	$ 285,672	11.3%
b. Payroll Taxes and Employee Insurance	$ 75,076	6.5%	$ 221,313	6.6%
c. Legal, Accounting and Stockholder	$ (23,109)	(16.5%)	$ (66,254)	(15.4%)
d. Other	$ 134,682	17.6%	$ 541,063	24.4%
	$ 260,105		$ 981,794	
6. Interest Expense	$ (42,761)	(6.7%)	$ 59,998	3.3%
Total Costs and Expenses	$1,816,517	14.1%	$6,157,204	16.5%
III. INCOME BEFORE INCOME TAXES	$1,359,367	705.4%	$1,950,662	167.0%
IV. NET INCOME	$ 827,367	675.4%	$1,177,962	162.4%

Results of Operations

On April 1, 1991, the Company opened its 44-bed addition to its Boulevard Manor Nursing Center located in Boynton Beach, Florida. On June 1, 1991, the Company opened the Renaissance, its newly constructed 120-bed facility in Naples, Florida. On March 11, 1992, the Company opened 13 new beds at its Boulevard Manor addition, bringing its total capacity to 167 beds. (The Boulevard Manor addition was constructed and decorated in anticipation of the eventual receipt of the additional 13-bed licensure, therefore, no material capital expenditures were incurred to bring these beds on-line.) The impact of the initial costs and expenses incurred in opening and operating the Renaissance and the Boulevard Manor addition have, as anticipated, negatively affected the Company's overall profitability and census for the quarter and nine months ended June 30, 1992. However, based upon the present rate of increase in occupancy levels, the Company anticipates that revenues from these facilities will continue to have a favorable offsetting affect on expenses.

On May 1, 1992, the Company sold its 76-Bed Phenix City Nursing Home in Phenix City, Alabama for approximately $1.3 million. As a consequence of this sale, the Company realized a pre-tax gain of approximately $793,000 which favorably affected the Company's overall profitability for the quarter and the nine months ended June 30, 1992. As previously reported, during November 1991, the Company exercised its option to purchase this facility. The transaction closed during February 1992. Prior to its purchase, Phenix City Nursing Home was accounted for as an operating lease. Phenix City Nursing Home was not a substantial producer of earnings for the Company and its location did not fit within the Company's present business plan for Alabama. (For a further discussion see "Financial Condition, Liquidity, and Capital Resources" in Item 2 of this Report.)

THREE MONTHS ENDED JUNE 30, 1992
COMPARED TO
THREE MONTHS ENDED JUNE 30, 1991

Headings refer to Line Items on the table on page 5.

Line 1 - Operating Revenues (net):

For the three months ended June 30, 1992, operating revenues (net) increased $3,176,000 (or 24.3%) as compared with the three months ended June 30, 1991. Operating revenues (net) is comprised of resident service income and other income, including interest. Resident service income is derived from charges for room (including rental income from The Hills), board, drugs, medical supplies, lab, x-ray and ancillary therapy services. Resident service income is affected by occupancy levels, room rates and patient mix.

Other income consists of services provided to patients such as laundry, beauty shop and vending machines and outpatient services such as

meals-on-wheels. Other income also includes income from the Company's Management Service Contract and interest and dividend income, and a pre-tax gain of approximately $793,000 from the sale of the Phenix City Nursing Home in early May, 1992. The growth in resident service income in the third quarter of fiscal 1992 as compared to the prior year's third quarter is due to a substantial increase in the average daily Medicaid reimbursement rate for certain of the Company's facilities, the openings of the Renaissance and Boulevard Manor addition, the Company's receipt in the third quarter of fiscal 1992 of Medicare cost report retroactive settlements (including the receipt of both fiscal 1990 and 1991 adjustments), an increase in census in the Company's Texas facilities and inflationary increases in private and subsidized resident room rates. The increase in resident service income is also due to a 3.2% increase in total resident days. Greater ancillary therapy services income also contributed to the increase in Resident Service Income. Total resident census in the third quarter of fiscal 1992 was 86% as compared to 84.7% in the third quarter of fiscal 1991. The Company's private, Medicaid and Medicare census was 35.1%, 59.3% and 4.2%, respectively, for the third quarter of fiscal 1992 as compared to 36.4%, 59% and 3.2%, respectively, for the third quarter of fiscal 1991. As noted above, during fiscal 1991, the Company opened its 120-bed Renaissance facility and a 44-bed addition to its Boulevard Manor Nursing Center (with 13 more beds opened on March 11, 1992). With respect to the quarter ended June 30, 1992, these facilities added bed capacity of 8,500 days. Consequently, the fill-up of the Renaissance and the Boulevard addition is the primary cause for the overall increase in the percentage of resident census.

Resident service income for the fiscal quarter ended June 30, 1992 includes the effects of Alabama's new Medicaid reimbursement system discussed below.

Medicare cost findings and resident services covered by state subsidy programs billed at current rates are subject to audit and adjustment. The Company has made those adjustments to its resident service income for the quarter ended June 30, 1992 which it believes are sufficient to account for retroactive adjustments that may occur based upon final cost report settlements under the Medicare and state subsidy programs. Such adjustments are necessarily estimates and accordingly final adjustments, if any, may vary. Management believes that final adjustments, if any, will not have a significant effect on the Company's financial statements for the three months ended June 30, 1992.

As part of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90"), federal legislation has been enacted to prohibit the Medicaid reimbursability of state imposed provider-specific taxes and donations used as a mechanism for passing Medicaid reimbursement cost increases through to the federal government. Alabama currently has in place a provider-specific tax, which became effective on September 1, 1991. For a more detailed discussion of these matters see the discussion following the discussion comparing the nine months ended June 30, 1992 to the nine months ended June 30, 1991.

Line 2 - Operating Expenses - exclusive of depreciation, amortization and rent; Line 2a. Operating Wages; Line 2b. Food, Operating Supplies and Other Expenses; Line 2d. Ancillary Services:

For the three months ended June 30, 1992, operating costs and expenses - exclusive of depreciation, amortization and rent increased $1,607,000 (or 18.5%) as compared with the three months ended June 30, 1991. The principal component of this increase is operating wages, which increased by $603,000 primarily due to salary increases, the effects of the increases in the minimum wage and staffing additions made necessary by OBRA requirements, as well as to the opening of the Renaissance and Boulevard Manor addition.

The increase in food, operating supplies and other expenses is primarily due to the monthly payments required under Alabama's new Provider-Specific Tax, which amounted to approximately $226,000 for the three months ended June 30, 1992, the openings of the Renaissance and the Boulevard Manor addition and to inflationary cost increases.

The ancillary services expense for therapy, medical supplies, lab, drug, and physician services increased due to increased utilization of these services primarily with respect to Medicare usage.

Line 5 - General and Administrative; Line 5a. Administrative Salaries; Line 5d. Other:

General and administrative expenses increased $260,000 (or 8.9%) for the three months ended June 30, 1992 as compared with the same quarter a year ago, primarily due to increases in administrative salaries, and "other" expenses.

The increase in administrative salaries is due to new staffing positions and annual wage adjustments.

The increase in other expenses is primarily due to increases in premiums for property and general liability insurance coverage, which amounted to approximately $135,000 for the three months ended June 30, 1992.

IV. Net Income:

Net income for the quarter ended June 30, 1992 was $950,000 or $.18 per share as compared with Net Income of $123,000 or $.04 per share for the quarter ended June 30, 1991. Improved earnings for the fiscal 1992 quarter are primarily due to the amount and timing of the Company's receipt of Medicare cost report retroactive settlements, the sale of the Company's Phenix City Nursing Home and the particularly strong performance of certain facilities due to the continuing favorable state subsidy rate increase. The impact of effective cost controls, particularly in the Arizona region, including reduced reliance on temporary nursing personnel, also contributed to the increase in the Company's earnings.

NINE MONTHS ENDED JUNE 30, 1992
COMPARED TO
NINE MONTHS ENDED JUNE 30, 1991

Headings refer to Line Items on the table on page 5

Line 1 - Operating Revenues (net):

For the nine months ended June 30, 1992, operating revenues (net) increased $8,108,000 (or 21.1%) as compared with the nine months ended June 30, 1991. Operating revenues (net) is comprised of resident service income and other income, including interest. Resident service income is derived from charges for room (including rental income from The Hills), board, drugs, medical supplies, lab, x-ray and ancillary therapy services. Resident service income is affected by occupancy levels, room rates and patient mix.

Other income consists of services provided to patients such as laundry, beauty shop and vending machines and out-patient services such as meals-on-wheels. Other income also includes income from the Company's Management Service Contract, interest and dividend income, and the pre-tax gain of approximately $793,000 resulting from the sale of the Company's Phenix City Nursing Home. The increase in resident service income for the nine months ended June 30, 1992, as compared to the same period in the prior year, is due to a substantial increase in the average daily Medicaid reimbursement rate for certain of the Company's facilities, the openings of the Renaissance and Boulevard Manor addition, the Company's receipt in the third quarter of fiscal 1992 of Medicare cost report retroactive settlements (including the receipt of both fiscal 1990 and 1991 adjustments), and an increase in census in the Company's Texas facilities, as well as to inflationary increases in private and subsidized resident room rates. The increase in resident service income is also due to a 5% increase in total resident days (i.e., approximately 29,000 resident days, of which approximately 73% is attributable to the newly opened Renaissance facility and the Boulevard Manor addition). Greater ancillary therapy services income also contributed to the increase in resident service income. Total resident census in the first nine months of fiscal 1992 was 86.1% as compared to 86.4% in the first nine months of fiscal 1991. The Company's private, Medicaid and Medicare census was 34.6%, 60.2% and 3.8%, respectively, for the first nine months of fiscal 1992 as compared to 36.7%, 58.3%, and 3.7%, respectively, for the first nine months of fiscal 1991. With respect to the nine months ended June 30, 1992, the Renaissance and the Boulevard Manor addition added bed capacity of 38,898 days.

Resident service income for the nine months June 30, 1992 includes the effects of Alabama's new Medicaid reimbursement system discussed later in this Report.

Medicare cost findings and resident services covered by state subsidy programs billed at current rates are subject to audit and adjustment. The Company has made those adjustments to its resident service income for the nine months ended June 30, 1992 which it believes are sufficient to account

for retroactive adjustments that may occur based upon final cost report settlements under the Medicare and state subsidy programs. Such adjustments are necessarily estimates and accordingly final adjustments, if any, may vary. Management believes that final adjustments, if any, will not have a significant effect on the Company's financial statements for the nine months ended June 30, 1992.

Line 2 - Operating Expenses - exclusive of depreciation, amortization and rent; Line 2a. Operating Wages; Line 2b. Food, Operating Supplies and Other Expenses; Line 2d. Ancillary Services:

For the nine months ended June 30, 1992, operating costs and expenses, exclusive of depreciation, amortization and rent increased $4,976,000 (or 19.8%) as compared with the nine months ended June 30, 1991. The principal component of this increase is operating wages, which increased by $2,339,000 primarily due to salary increases, the effects of the increases in the minimum wage and staffing additions made necessary by OBRA requirements, as well as to the opening of the Renaissance and Boulevard Manor addition.

The increase in food, operating supplies and other expenses is primarily due to the monthly payments required under Alabama's new Provider-Specific Tax, which amounted to approximately $678,000 for the nine months ended June 30, 1992, the openings of the Renaissance and the Boulevard Manor addition and to inflationary cost increases.

The ancillary services expense for therapy, medical supplies, lab, drug, and physician services increased due to increased utilization of these services primarily with respect to Medicare usage.

Line 3 - Depreciation and Amortization:

The increase in depreciation and amortization of $154,000 (or 11.1%) was caused primarily by the impact of the openings of the Renaissance and the Boulevard Manor addition.

Line 5 - General and Administrative; Line 5a. - Administrative Salaries; Line 5d. - Other:

General and administrative expenses increased $982,000 (or 11.6%) for the nine months ended June 30, 1992 as compared with the same period a year ago, primarily due to increases in administrative salaries and "other" expenses.

The increase in administrative salaries is due to staffing positions and annual wage adjustments.

The increase in other expenses is primarily due to increases in premiums for property and general liability insurance coverage, which amounted to approximately $408,000 for the nine months ended June 30, 1992.

Line 6 - Interest Expense:

Interest expense increased $60,000 (or 3.3%) due primarily to financing costs associated with the construction and furnishings of the Renaissance and the Boulevard Manor addition. (Interest associated with the construction financings was capitalized during the construction period.) (Excluding the impact of the interest expense associated with the new Florida facilities, interest expense decreased $393,000 (or 23%).) Interest expense has benefited by the effect of continuing pay-down of long-term debts and decreases in the prime rate.

IV. Net Income:

Net income for the nine months ended June 30, 1992 was $1,904,000 or $.36 per share as compared with Net Income of $726,000 or $.14 per share for the nine months ended June 30, 1991. Improved earnings for the nine months ended June 30, 1992 are primarily due to the amount and timing of the Company's receipt of Medicare cost report retroactive settlements, the sale of the Company's Phenix City Nursing Home, and the particularly strong performance of certain facilities due to the continuing favorable state subsidy rate increase. The impact of effective cost controls, particularly in the Arizona region, including reduced reliance on temporary nursing personnel, also contributed to the increase in the Company's earnings. These factors partially offset the negative impact on profitability brought about by the openings of the Renaissance and the Boulevard Manor addition. Net income also benefited from improved ancillary services income.

* * * * * * * * * * * *

The Company's operations have been favorably affected due in part to an increase in subsidy patient rates. However the regulatory nature of the nursing home industry may restrict the Company's ability to raise room rates in the future. Further, there is a trend in the health care industry for subsidy payments to be established prospectively rather than retrospectively based on actual costs. While the Company believes that it is efficiently run so as to benefit from such a prospective system, there can be no assurance that such prospectively established rates will not be used as a policy tool to reduce health care costs by setting unrealistically low rates or that such rates will not otherwise be established in a fashion which will render it unprofitable to render services to subsidy patients. The ratio of private to subsidy patients may be affected by general economic conditions and other factors beyond the Company's control, resulting in a greater concentration of patients requiring subsidies from regulatory sources. Continued upward pressure on costs and expenses could adversely affect operating results in the future.

Presently, the Company has operations in Alabama, Arizona, Florida and Texas. Alabama and Florida currently have "Certificate of Need" programs under which the appropriate state regulatory body identifies the number and general location of future nursing home facilities. In 1982, the State of Arizona suspended its Certificate of Need program. There is no current Certificate of Need program in Texas. These regulatory programs generally had little effect on the Company's expansion in these areas because the thrust of its operation is to acquire, lease or manage existing facilities whose operations had not been maximized by prior management. Generally, however, the Certificate of Need programs also serve to limit new competition

in order to assure the efficient operation of facilities through higher occupancy.

As noted above, in 1982 the State of Arizona suspended its Certificate of Need program. As a consequence of this suspension, commencing in mid-fiscal 1983 the Company began to feel the competitive effect of the opening of a number of new homes near its Arizona facilities. Beginning in the second half of fiscal 1986, the Company experienced substantially increased levels of competition in Arizona for subsidized and private pay residents and a greater shortage of experienced personnel, requiring it to have more expensive medical pool personnel. As indicated in the Company's Quarterly and Annual Reports, from mid-1986 through fiscal 1988 the Company's net income was significantly adversely affected by these conditions and the effect of inadequate reimbursement rates for subsidized residents. While the Company recorded significant gains in fiscal 1991, 1990 and 1989, as compared to fiscal 1988, due in part to improving its competitive position in Arizona, it expects the general competitive pressures to continue with resultant quarterly fluctuations in income.

As noted above, there is no current Certificate of Need program in Texas, where the Company has its Hilltop, Silver Creek, Alpine Terrace and Edgewater Care Center facilities. However, there is a moratorium on Medicaid participation by new facilities which effectively controls new entry. There can be no assurance that this moratorium will continue.

There can be no assurance that other states in which the Company does business will not abolish their own Certificate of Need program in order to reap short-term reductions in the reimbursement rates which they pay.

The Company is continuing to focus attention on its Texas operations in an effort to bring those operations into a stable profitable position. While still presenting challenges, there exist some indications that the region as a whole is responding favorably to measures taken to increase productivity. While there has been some modest improvement in the Texas census (for the three months ended June 30, 1992 as compared with the same period for the prior year), there continues to be low census in Texas due to capacity exceeding demand in the Kerrville area. With respect to the Company's operations over the last three fiscal years, continued low occupancy levels in Texas have had a significant adverse impact. Among the actions being taken by the Company to bring its Texas facilities up to the productivity levels of its other facilities are the continuation of a marketing and employee retention program and the establishment of medical specialization units. In addition, the Company has realigned its administration in that geographic area and continues to take steps to reduce expenses stemming from underutilization of facilities. It is the Company's hope that over time such measures will result in increasing productivity levels. There can be no assurance of that result.

During the latter part of fiscal 1991, the Company opened its newly constructed 120-bed facility in Naples, Florida, as well as a 44-bed addition to its Boulevard Manor facility in Boynton Beach, Florida. The Company has also received its license for and has opened 13 more beds at this addition. The Boulevard Manor addition was constructed in anticipation of the receipt of a Certificate of Need and license for these beds and, therefore, no material capital expenditures were necessary to bring these beds on-line. The Company selected Florida for this expansion because of its historic

stability as a profit center for its operations. The Company anticipates that, over time, the expansion in Florida will contribute significantly to the Company's future growth and profits. (See also discussion under "Results of Operations" under this Item 2.)

The amended qualifications for participation in the Medicare and Medicaid program by nursing homes set forth under the Federal Omnibus Budget Reconciliation Act of 1987 ("OBRA-87") have resulted in increases in costs to the Company. OBRA-87 also requires that States provide Medicaid reimbursement sufficient to cover the costs of complying with amended qualifications for participation requirements. OBRA-90 requires that Medicaid reimbursement be sufficient to cover the costs required to attain or maintain each Medicaid resident's highest practicable physical, mental and psychosocial well-being. The Company anticipates that increased Medicaid revenues should offset the costs of OBRA-87 compliance. In addition to other new governing regulations, OBRA-87 directed that reimbursement no longer be available for the intermediate level of care effective October 1, 1990. The Company believes that its nursing homes meet the requirements for classification as "nursing facilities" under the federal Medicaid statutes and rules, as amended by OBRA-87. As a result, the elimination of the intermediate level of care has not had, nor does the Company expect that it will have, a material effect on the Company's operations.

Due to Alabama's new Medicaid reimbursement system which became effective on September 1, 1991, the Company's average daily reimbursement rate for subsidized residents in its Alabama facilities significantly increased. In order to continue to receive Medicaid reimbursement at the increased level, Alabama nursing facilities must establish that they have

expended funds in complying with OBRA-87 mandates. Assuming the increased reimbursement can be maintained, revenue enhancements associated with federal matching to the Medicaid program are anticipated to closely approximate costs and expenses associated with OBRA-87 compliance requirements. The Company's Alabama facilities contribute significantly to the Company's earnings.

The State of Alabama enacted a provider-specific tax that became effective September 1, 1991. The tax assessment amounts to $999.96 per bed annually and is payable in monthly installments beginning October 10, 1991. For the Company's facilities in Alabama, the provider-specific tax amounts to $760,000 per annum. The purpose of the tax is to increase the State's contribution to the Medicaid program, entitling Alabama to an overall increase in funding through federal matching funds for the Medicaid program. The increased funding was provided to nursing homes for the stated purpose of enabling nursing homes to comply with the OBRA-87 increased staffing and other requirements for continued participation in the Medicaid and Medicare programs. Currently, for every dollar of provider tax contributed by the State to the Medicaid program, the federal government provides approximately three dollars in matching Medicaid funds.

The State of Florida, in a special legislative session, expanded the assessment charged to hospitals and ambulatory care centers to include nursing homes. Effective July 1, 1992, nursing homes are subject to a $1.50 assessment per patient day for all patients regardless of payment source. The assessment is intended and designed to boost the state's contribution to the Medicaid program and increase the federal matching dollars available to Florida facilities. In this way, Florida will avert a previously projected Medicaid cut.

As part of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90"), Congress enacted legislation prohibiting the reimbursability of state imposed provider taxes and donations used in many states as a mechanism for passing Medicaid reimbursement cost increases through to the federal government. OBRA-90 makes provider-specific taxes non-reimbursable for Medicaid purposes. Currently a number of states, including Florida and Alabama, impose a tax on nursing home operators participating in the Medicaid program. The provider-specific tax revenue generated is used by the state as an enhancement to its federally mandated and federally matched contribution to Medicaid payments. The net effect is increased Medicaid reimbursement to nursing homes at no additional cost to the state.

Regulations implementing the OBRA-90 provision and limiting the availability of federal matching funds for provider-specific taxes, proposed by the Health Care Financing Administration ("HCFA") on September 12, 1991, generated heated discussion among states, providers and the federal government. A number of legislative responses, remedies and moratoria were proposed by Congress and the affected states. As drafted, the regulations prohibited federal matching of, or reimbursement for, any provider-specific taxes. On December 12, 1991, President Bush signed into law The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 (the "Medicaid Contribution Act") which directed HCFA to withdraw its proposed regulations and prohibited the issuance of new regulations before September 30, 1992. The Medicaid Contribution Act became effective on January 1, 1992 and effectively grandfathered many such state provider-specific tax/donation programs already in place, including the Alabama program, at least through September 30, 1992. The Medicaid

Contribution Act also established a framework for determining which tax/donation programs are acceptable as a source of a state's expenditures for which federal matching funds are available.

On April 30, 1992, the Alabama Legislature passed legislation designed to conform Alabama's provider-specific tax program to the mandates of the Medicaid Contribution Act. The Governor of Alabama has signed the legislation into law which carries an effective date of October 1,1992. The legislation on its face does not affect either the amount of the tax or the reimbursement for the Company's Alabama facilities.

In response to the Medicaid Contribution Act, HCFA withdrew its proposed regulations effective December 6, 1991. The HCFA regulations which were withdrawn, would have reduced overall nursing home reimbursement in the states that rely upon provider-specific taxes for all or a portion of their state contribution to the Medicaid program. The Company cannot predict the likelihood of re-promulgation or implementation of the HCFA proposed rules implementing the Medicaid Contribution Act, nor the exact response to be taken by any state.

The Company believes that medical specialization is an important trend in long-term care. The Company believes that programs offering specialized care should increase census with higher rates of reimbursement. Currently, the Company operates a specialized unit for treatment of Alzheimer's disease in three separate facilities located in Alabama, Arizona and Texas.

As a consequence of changing conditions in Arizona, the impact of the Company's 1987 Texas acquisitions (i.e., the acquisition of Alpine Terrace, Edgewater Care Center, Leslie Place and The Hills,) and the expansion in Florida, and recent sales of facilities (see "Financial Condition, Liquidity

and Capital Resources), the Company continues to expect that there will be quarterly variations in revenue and income.

Overall, the Company believes that future growth in its earnings will depend upon increasing the variety and kinds of services which it provides, increased occupancy and room rates, and the acquisition of additional facilities which provide various levels of convalescent and geriatric care. In particular the Company's future growth and profit is clearly tied to improving its Texas census, increasing the number of residents at the Company's 120-bed Renaissance facility and at the 57-bed addition to its Boulevard Manor facility, successfully maintaining its competitive position in Arizona, and attracting and retaining required nursing personnel so to reduce the need to utilize nursing pools.

Financial Condition, Liquidity and Capital Resources

The Company's working capital increased by $595,000 at June 30, 1992 as compared to September 30, 1991. The Company's fixed assets increased by $1,187,000 at June 30, 1992, as compared to September 30, 1991, primarily due to the acquisition of its Phenix City Nursing Home at a purchase price of $418,000 with the remainder due to normal replacements for equipment, furniture and fixtures at the Company's facilities.

The increase in prepaid expense of $328,000 at June 30, 1992, as compared to September 30, 1991, resulted from the timing of payments for insurance coverage.

The increase in Other Noncurrent Assets at June 30, 1992, as compared to September 30, 1991, is primarily due to the proceeds from the sale of Phenix City Nursing Home in the amount of $994,000. This amount was held in

escrow and was applied to the tax-deferred like-kind exchange for the purchase of Fairview Nursing Home.

The increase in Other Current liabilities at June 30, 1992 reflects Medicare and state subsidy program adjustments. Such adjustments are necessarily estimates and accordingly final adjustments, if any, may vary. Management believes that final adjustments, if any, will not have a significant effect on the Company's financial statements for the three months and nine months ended June 30, 1992.

The increase in Federal and state income taxes payable at June 30, 1992, as compared to September 30, 1991, is attributable to the increase in the provision for income taxes currently payable and the timing of payments and receipts relating to income tax obligations.

The Company's capital resources are derived principally from operating activities. Net cash provided by operating activities was $3,704,000 for the nine months ended June 30, 1992 as compared to $2,910,000 for the nine months ended June 30, 1991. The Company has available lines of credit of $1,500,000 pursuant to short-term borrowing arrangements. The Company has utilized approximately $931,000 of its available credit lines for various equipment leases. Because the Company generally has no need for seasonal lines and short-term borrowings for operational purposes (see discussion below), the Company believes that the amount available under its lines of credit is sufficient for its purposes. Long term cash generation has not historically presented any difficulties for the Company. As noted, the Company's ability to generate cash on a long term basis is tied to its ability to generate earnings from operations. In addition, the Company utilizes long term bank

loans secured by mortgages and has, in the past, utilized long term financing through industrial development bonds.

As previously reported, during November 1991, the Company exercised its option to purchase the 76-bed Phenix City Nursing Home, located in Phenix City, Alabama, for the sum of $418,000. The transaction closed during the second quarter of fiscal 1992. Prior to its purchase, the Phenix City Nursing Home had been accounted for as an operating lease. On May 1, 1992, the Company sold this Nursing Home for approximately $1.3 million. As more fully discussed under item 5 of this Report, effective July 1, 1992 the company sold its Southland Nursing Home in Marion, Alabama for approximately $1.2 million.

On August 5, 1992 the Company exercised its option to purchase the 165-bed Fairview Nursing Home in Birmingham, Alabama, a facility which Vari-Care had leased and operated for 20 years. The exercise price was $1,650,000. The purchase of the Fairview facility involved a tax-deferred like-kind exchange of the Phenix City and Southland Nursing Homes, which as previously described in this Report, the Company sold in May and July 1992, respectively. As a result of this exchange the Company expects to realize an after-tax gain of approximately $883,000 and a tax deferral on the Phenix City and Southland sale of approximately $591,000.

The Company has not yet adopted Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109, which currently must be adopted by the Company in the 1994 fiscal year, requires that a deferred tax liability or asset be adjusted in the period of enactment for the effect of changes in tax laws or rates. The future adoption of SFAS 109 will not have a material effect on the Company's financial condition.

Statement of Financial Accounting Standard No. 106 "Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) was issued in December, 1990 and requires adoption for fiscal years beginning after December 15, 1992. SFAS 106 requires accrual accounting by employers for postretirement benefits other than pensions by reflecting in expense currently earned benefits. The Company currently has no postretirement benefit plans and, therefore, believes that SFAS 106 will have no effect on its financial condition or results of operations.

The Company's business does not require carrying inventories for any appreciable period of time. The Company carries food, maintenance and nursing supply items which are utilized and replaced on a weekly basis. Resident receipts are obtained on a monthly basis, in advance for private residents and after the end of the month for subsidy residents. In addition, the Company receives annual retroactive subsidy adjustments based upon annual cost reports. Accordingly, the Company generally has no need for seasonal lines and short-term borrowings for operational purposes. Occasionally, the Company may be required to obtain short-term lines of credit to bridge anticipated delays in payments from subsidy sources and has also used short-term borrowings to assist in acquisitions, pending placement of long-term financing.

Generally, the Company's operations are highly leveraged, its borrowings are long-term, either on fixed or floating payment schedules, and are reflected in the monthly resident rates established by the Company and subsidy sources. The Company does not believe that the establishment of a prospective rate system, in states that do not presently have such a system

and in which the Company operates (i.e., Arizona), will cause its present highly leveraged position to be a disadvantage.

No special factors occurred during the quarter ended June 30, 1992 which deviated from the general statements set forth above concerning liquidity and capital resources.

PART II - OTHER INFORMATION

Item 5. Other Information

As previously reported, during November 1991, the Company exercised its option to purchase the 76-bed Phenix City Nursing Home, located in Phenix City, Alabama, for the sum of $418,000. The transaction closed during the second quarter of fiscal 1992. Prior to its purchase, the Phenix City Nursing Home had been accounted for as an operating lease. On May 1, 1992, the Company sold this facility for approximately $1.3 million. Effective July 1, 1992 the Company sold its Southland Nursing Home in Marion, Alabama for approximately $1.2 million. Phenix City and Southland were not substantial producers of earnings for the Company and their locations did not fit within the Company's present business plan for Alabama.

On August 5, 1992 the Company exercised its option to purchase the 165-bed Fairview Nursing Home in Birmingham, Alabama, a facility which Vari-Care had leased and operated for 20 years. The exercise price was $1,650,000. The purchase of the Fairview facility involved a tax-deferred like kind exchange of the Phenix City and Southland Nursing Homes, which as previously described in this Report, the Company sold in May and July, 1992, respectively. As a result of this exchange, the Company expects to realize an after-tax gain of approximately $883,000 and a tax deferral on the Phenix City and Southland sale of approximately $591,000.

Item 6. Exhibits and Reports on Form 8-K.

(a) See Index to Exhibits.

(b) There were no reports on Form 8-K filed during the quarter ended June 30, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

VARI-CARE, INC.
(Registrant)

Dated: August 13, 1992

By: s/ Robert H. Hurlbut
Robert H. Hurlbut, President

Dated: August 13, 1992

By: s/ William F. Doud
William F. Doud,
Executive Vice President
Principal Financial Officer

INDEX TO EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession.

Not Applicable.

(4) Instruments defining the rights of security holders, including indentures.

Exhibit 4(a) to the Company's Quarterly Report of Form 10-Q for the quarter ended June 30, 1987 is incorporated herein by reference with respect to the Restated Certificate of Incorporation of the Company.

Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1988 is incorporated herein by reference with respect to the By-Laws of the Company.

Extension Agreement, dated as of March 8, 1991, between the Company and SouthTrust Bank of Alabama, National Association, modifying the Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987 (as previously modified) pertaining to the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 4(a) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991.

Extension and Modification Agreement between the Company and SouthTrust Bank of Alabama, National Association, dated as of April 22, 1991, modifying the Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987 (as previously modified) pertaining to the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 4(b) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991.

Construction Loan Agreement, dated as of January 29, 1990, between the Company and SouthTrust Bank of Alabama, National Association ("SouthTrust Bank"), Note in the amount of $5,871,000 dated January 29, 1990, executed and delivered by the Company payable to SouthTrust Bank, and Mortgage and Security Agreement, dated as of January 29, 1990, between the Company and SouthTrust Bank pertaining to the "Renaissance" is incorporated herein by reference to Exhibit 4(a) of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1989.

Extension and Modification Agreement between the Company and SouthTrust Bank of Alabama, National Association, effective as of March 6, 1988, modifying the Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987 pertaining to the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 4(b) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1988.

Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987, executed and delivered by the Company as security for

a Promissory Note payable to SouthTrust Bank of Alabama, N.A. in connection with the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 2(e) to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1987.

(11) Statement re computation of per share earnings.

Computation of per share earnings is included herein as Exhibit 11 at page 28 of this Report.

(15) Letter re unaudited interim financial information.

Not Applicable.

(18) Letter re change in accounting principles.

Not Applicable.

(19) Previously unfiled documents.

None.

(20) Report furnished to security holders.

None.

(23) Published report regarding matters submitted to vote of security holders.

None.

(24) Consents of experts and counsel.

Not Applicable.

(25) Power of attorney.

Not Applicable.

(28) Additional exhibits.

Asset Purchase Agreement dated April 13, 1992 between Vari-Care, Inc. and Phenix City Nursing Home is included herein as Exhibit 28.1 at page 29 of this Report.

Asset Purchase Agreement dated June 4,1992 between Vari-Care, Inc. and Southland Nursing Home is included herein as Exhibit 28.2 at page 44 of this Report.